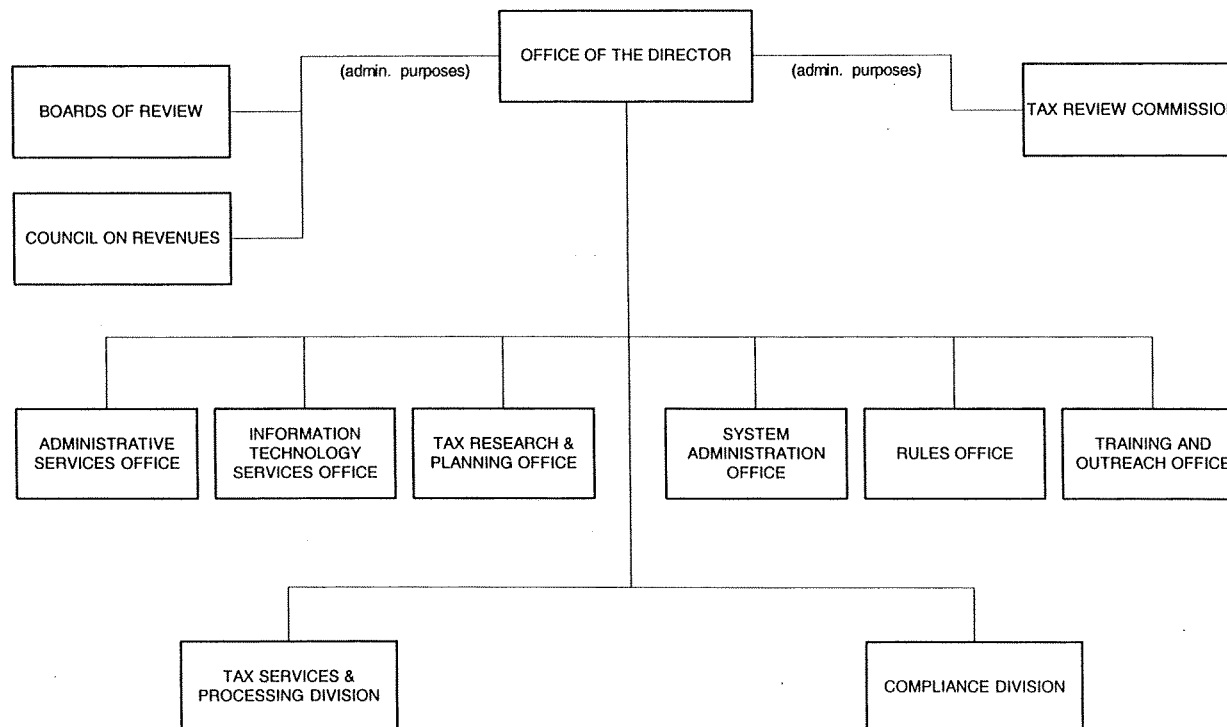




Department of Taxation

STATE OF HAWAII
DEPARTMENT OF TAXATION
PLAN OF ORGANIZATION



DEPARTMENT OF TAXATION MAJOR FUNCTIONS

- Administers and enforces the tax laws of Hawaii and the collection of taxes and other payments.
- Coordinates a centralized system for receiving and processing of all tax returns, payments and documents.
- Provides one-stop customer service, assistance and information on all taxes administered by the department to customers who walk in, call-in, correspond or e-mail.
- Administers a comprehensive and uniform compliance program based on self-assessment and voluntary compliance.
- Conducts audits and investigations of all types of tax returns.
- Conducts and enforces collection of delinquent taxes by appropriate collection procedures.
- Plans, organizes and coordinates a tax research and tax planning program.
- Provides administrative and research support to the Council on Revenues which prepares revenue estimates for the State on a quarterly basis.

MAJOR PROGRAM AREAS

The Department of Taxation has programs in the following major program area:

Government-Wide Support

| | |
|---------|--|
| TAX 102 | Income Assessment and Audit |
| TAX 103 | Tax Collections Enforcement |
| TAX 105 | Tax Services and Processing |
| TAX 107 | Supporting Services – Revenue Collection |

DEPARTMENT OF TAXATION

Department Summary

Mission Statement

To administer the tax laws of the State of Hawaii in a consistent, uniform and fair manner by educating taxpayers on tax laws, by developing a professional staff and by using technology to increase efficiency and effectiveness.

Department Goals

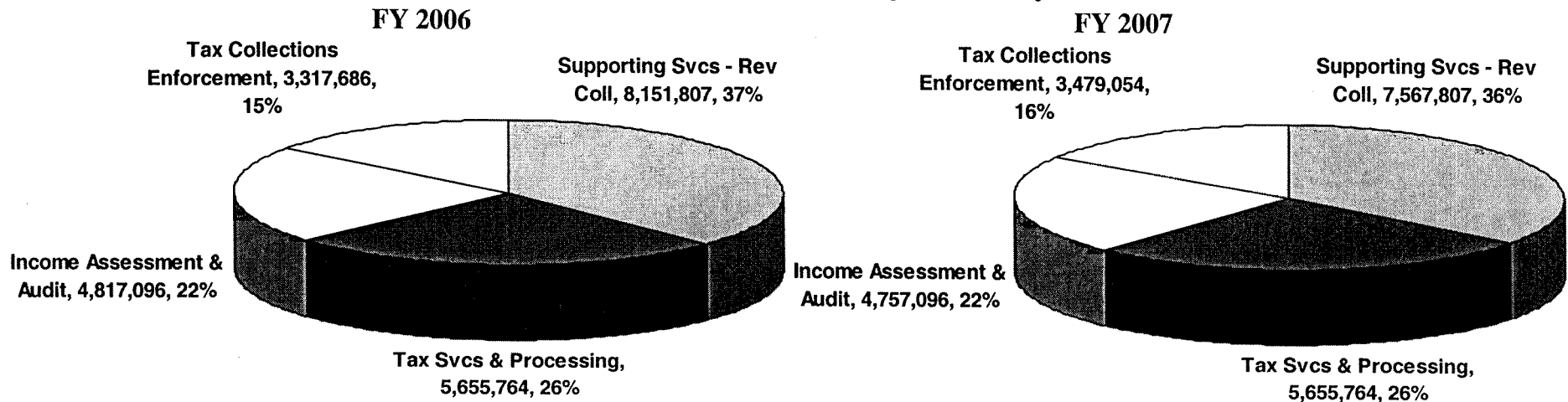
To provide one-stop customer service; to increase collection capabilities through efficient allocation of resources; to simplify taxpayer filings, provide a more user-friendly interface with the public, speed up refunds and expedite delinquent referrals; to automate tax filings, billings and collections; to expand capacity for research and revenue analysis; to permit more flexibility in accommodating tax law changes and initiatives to improve tax administration.

Significant Measures of Effectiveness

1. Average number of days to issue refund check
2. Percent of tax returns audited resulting in adjustments
3. Percent of delinquent taxes collected

| FY 2006 | FY 2007 |
|---------|---------|
| 30 | 30 |
| 80 | 80 |
| 50 | 50 |

FB 2005-2007 Budget by Major Activity



**Department of Taxation
(Operating Budget)**

| | | <u>FY 2005 Allocation</u> | <u>FY 2006</u> | <u>FY 2007</u> |
|---------------------------|-----------|----------------------------------|-----------------------|-----------------------|
| Funding Sources: | Positions | 332.00 | 361.50 | 367.50 |
| General Fund | \$ | 18,636,923 | 21,690,353 | 21,207,721 |
| Special Funds | | 1,494,252 | 252,000 | 252,000 |
| | | <hr/> | <hr/> | <hr/> |
| | | 332.00 | 361.50 | 367.50 |
| Total Requirements | | 20,131,175 | 21,942,353 | 21,459,721 |
| | | <hr/> | <hr/> | <hr/> |

Highlights of the Executive Biennium Budget Request:

1. Added 26 positions and general funds of \$984,200 in FY 06 and 32 positions and \$1,085,568 in FY 07 for the department's revenue enhancement program to expand audit and collection activities.
2. Added 3 position counts to convert 3 temporary positions to permanent in the Information Technology Services Office (ITSO) and System Administration Office.
3. Added half a position count to converted a half-time position to full time in the Tax Services and Processing Division.
4. Added general funds of \$1,456,000 in FY 06 and \$1,092,000 in FY 07 for production support of the department's Integrated Tax Information Management System (ITIMS).
5. Added general funds of \$220,000 in FY 06 for the Tax Review Commission.

OPERATING AND CAPITAL EXPENDITURES

REPORT P61-A

PROGRAM ID:

PROGRAM STRUCTURE NO.

PROGRAM TITLE: **DEPARTMENT OF TAXATION**

| PROGRAM EXPENDITURES | -----IN DOLLARS----- | | | | -----IN THOUSANDS----- | | | |
|------------------------|----------------------|------------|------------|------------|------------------------|-----------|-----------|-----------|
| | FY2003-04 | FY2004-05 | FY2005-06 | FY2006-07 | FY2007-08 | FY2008-09 | FY2009-10 | FY2010-11 |
| OPERATING COST | 332.00* | 332.00* | 361.50* | 367.50* | 367.5* | 367.5* | 367.5* | 367.5* |
| PERSONAL SERVICES | 13,354,998 | 14,700,547 | 15,989,606 | 16,169,174 | 16,169 | 16,169 | 16,169 | 16,169 |
| OTHER CURRENT EXPENSES | 13,367,276 | 5,430,628 | 5,848,747 | 5,266,547 | 5,267 | 5,267 | 5,267 | 5,267 |
| EQUIPMENT | 161,242 | | 104,000 | 24,000 | 24 | 24 | 24 | 24 |
| TOTAL OPERATING COST | 26,883,516 | 20,131,175 | 21,942,353 | 21,459,721 | 21,460 | 21,460 | 21,460 | 21,460 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| BY MEANS OF FINANCING | | | | | | | | |
| GENERAL FUND | 18,303,974 | 18,636,923 | 21,690,353 | 21,207,721 | 21,208 | 21,208 | 21,208 | 21,208 |
| SPECIAL FUND | 8,579,542 | 1,494,252 | 252,000 | 252,000 | 252 | 252 | 252 | 252 |
| TOTAL POSITIONS | 332.00* | 332.00* | 361.50* | 367.50* | 367.50* | 367.50* | 367.50* | 367.50* |
| TOTAL PROGRAM COST | 26,883,516 | 20,131,175 | 21,942,353 | 21,459,721 | 21,460 | 21,460 | 21,460 | 21,460 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

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Operating Budget Details

OPERATING AND CAPITAL EXPENDITURES

REPORT P61-A

PROGRAM ID:

PROGRAM STRUCTURE NO. 11

PROGRAM TITLE: GOVERNMENT-WIDE SUPPORT

| PROGRAM EXPENDITURES | -----IN DOLLARS----- | | | | -----IN THOUSANDS----- | | | |
|------------------------|----------------------|------------|------------|------------|------------------------|-----------|-----------|-----------|
| | FY2003-04 | FY2004-05 | FY2005-06 | FY2006-07 | FY2007-08 | FY2008-09 | FY2009-10 | FY2010-11 |
| OPERATING COST | 332.00* | 332.00* | 361.50* | 367.50* | 367.5* | 367.5* | 367.5* | 367.5* |
| PERSONAL SERVICES | 13,354,998 | 14,700,547 | 15,989,606 | 16,169,174 | 16,169 | 16,169 | 16,169 | 16,169 |
| OTHER CURRENT EXPENSES | 13,367,276 | 5,430,628 | 5,848,747 | 5,266,547 | 5,267 | 5,267 | 5,267 | 5,267 |
| EQUIPMENT | 161,242 | | 104,000 | 24,000 | 24 | 24 | 24 | 24 |
| TOTAL OPERATING COST | 26,883,516 | 20,131,175 | 21,942,353 | 21,459,721 | 21,460 | 21,460 | 21,460 | 21,460 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| BY MEANS OF FINANCING | | | | | | | | |
| | 332.00* | 332.00* | 361.50* | 367.50* | 367.5* | 367.5* | 367.5* | 367.5* |
| GENERAL FUND | 18,303,974 | 18,636,923 | 21,690,353 | 21,207,721 | 21,208 | 21,208 | 21,208 | 21,208 |
| SPECIAL FUND | 8,579,542 | 1,494,252 | 252,000 | 252,000 | 252 | 252 | 252 | 252 |
| TOTAL POSITIONS | 332.00* | 332.00* | 361.50* | 367.50* | 367.50* | 367.50* | 367.50* | 367.50* |
| TOTAL PROGRAM COST | 26,883,516 | 20,131,175 | 21,942,353 | 21,459,721 | 21,460 | 21,460 | 21,460 | 21,460 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

OPERATING AND CAPITAL EXPENDITURES

REPORT P61-A

PROGRAM ID: TAX102
 PROGRAM STRUCTURE NO. 11020101
 PROGRAM TITLE: INCOME ASSESSMENT AND AUDIT

| PROGRAM EXPENDITURES | IN DOLLARS | | | | IN THOUSANDS | | | |
|------------------------|------------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|
| | FY2003-04 | FY2004-05 | FY2005-06 | FY2006-07 | FY2007-08 | FY2008-09 | FY2009-10 | FY2010-11 |
| OPERATING COST | 103.00* | 103.00* | 101.00* | 101.00* | 101.0* | 101.0* | 101.0* | 101.0* |
| PERSONAL SERVICES | 4,254,321 | 4,631,011 | 4,682,091 | 4,682,091 | 4,682 | 4,682 | 4,682 | 4,682 |
| OTHER CURRENT EXPENSES | 333,481 | 60,056 | 75,005 | 75,005 | 75 | 75 | 75 | 75 |
| EQUIPMENT | 1,761 | | 60,000 | | | | | |
| TOTAL OPERATING COST | 4,589,563 | 4,691,067 | 4,817,096 | 4,757,096 | 4,757 | 4,757 | 4,757 | 4,757 |
| BY MEANS OF FINANCING | 103.00* | 103.00* | 101.00* | 101.00* | 101.0* | 101.0* | 101.0* | 101.0* |
| GENERAL FUND | 4,589,563 | 4,691,067 | 4,817,096 | 4,757,096 | 4,757 | 4,757 | 4,757 | 4,757 |
| TOTAL POSITIONS | 103.00* | 103.00* | 101.00* | 101.00* | 101.00* | 101.00* | 101.00* | 101.00* |
| TOTAL PROGRAM COST | 4,589,563 | 4,691,067 | 4,817,096 | 4,757,096 | 4,757 | 4,757 | 4,757 | 4,757 |

PERFORMANCE MEASURES AND PROGRAM REVENUES

REPORT P62

PROGRAM ID: TAX-102
 PROGRAM STRUCTURE NO: 11020101
 PROGRAM TITLE: INCOME ASSESSMENT AND AUDIT

| | FY03-04 | FY04-05 | FY05-06 | FY06-07 | FY07-08 | FY08-09 | FY09-10 | FY10-11 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| MEASURES OF EFFECTIVENESS | | | | | | | | |
| 1 # RETURNS OFFICE AUDITED AS % RETURNS FILED | 0.2 | 0.2 | 0.2 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| 2 % RETURNS OFFICE AUDITED RESULTING IN ADJUSTMENTS | 82 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |
| 3 # RETURNS FIELD AUDITED AS % OF RETURNS FILED | 0.1 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| 4 % RETURNS FIELD AUDITED RESULTING IN ADJUSTMENTS | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |
| 5 % APPEALED ASSESSMTS UPHOLDING STATE'S POSITIONS | 70 | 60 | 60 | 60 | 60 | 60 | 60 | 60 |

PROGRAM TARGET GROUPS

| | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| 1 NO. ACTIVE BUSINESS LICENSES DURING THE FISC YEAR | 498785 | 498485 | 498485 | 498485 | 498485 | 498485 | 498485 | 498485 |
| 2 # NET INCOME & GE ANNUAL RETURNS FILED IN FIS | 1533005 | 1500000 | 1500000 | 1500000 | 1500000 | 1500000 | 1500000 | 1500000 |

PROGRAM ACTIVITIES

| | | | | | | | | |
|---|------|------|------|------|------|------|------|------|
| 1 NUMBER OF RETURNS OFFICE AUDITED | 2595 | 3000 | 5900 | 5900 | 5900 | 5900 | 5900 | 5900 |
| 2 NUMBER OF RETURNS FIELD AUDITED | 1565 | 2000 | 3670 | 3670 | 3740 | 3740 | 3740 | 3740 |
| 3 TOTAL AMOUNT OF ASSESSMENTS MADE | 71 | 60 | 65 | 70 | 76 | 80 | 80 | 80 |
| 4 TOTAL NUMBER OF COLLECTIONS MADE W/ ASSESSMENTS | 15 | 6 | 7 | 8 | 10 | 10 | 10 | 10 |

PROGRAM REVENUES BY TYPE (IN THOUSANDS OF DOLLARS):

| | | | | | | | | |
|---|---|----|----|----|----|----|----|----|
| TAXES | | | | | | | | |
| LICENSES, PERMITS AND FEES | | | | | | | | |
| REVENUES FROM THE USE OF MONEY AND PROPERTY | | | | | | | | |
| REVENUE FROM OTHER AGENCIES: FEDERAL | | | | | | | | |
| ALL OTHER | | | | | | | | |
| CHARGES FOR CURRENT SERVICES | 9 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| FINES, FORFEITS AND PENALTIES | | | | | | | | |
| NON-REVENUE RECEIPTS | | | | | | | | |
| TOTAL PROGRAM REVENUES | 9 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |

PROGRAM REVENUES BY FUND TO WHICH DEPOSITED (IN THOUSANDS OF DOLLARS):

| | | | | | | | | |
|------------------------|---|----|----|----|----|----|----|----|
| GENERAL FUND | 9 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| TOTAL PROGRAM REVENUES | 9 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |

A. Statement of Program Objectives

To promote and maintain a tax system based on self-assessment and voluntary compliance by taxpayers through the consistent and fair application of all State tax laws administered by the Department.

B. Description of Request and Compliance with Section 37-68(1)(A)(B)

The Income Assessment and Audit program is requesting funds for eight Auditor positions, seven Tax Returns Examiner positions, and related costs to enable the Department to collect an additional \$35 million in tax revenues.

C. Description of Activities Performed

1. Field Audits – Field audits involve the examination of taxpayers' accounting records, books, and financial statements to ensure appropriate compliance with State tax laws, proper classification of revenues, and acceptable documentation for expenses claimed. The scope of activities for field examinations encompasses the assessing for tax-deficiencies, the refunding of overpayments, and the prompt resolution of disputes and appeals.
2. Office Examinations – Office examinations involve the in-depth review of a wide variety of tax returns to ensure accuracy of math computations, proper reporting of revenues, and reasonableness for expenses claimed. The scope of activities for office examinations is the same as those experienced in field auditing.
3. In the neighbor island district offices, the program provides taxpayer assistance and services for a range of functions. Taxpayers are assisted over the counter (walk-ins), and through telephone inquiries and correspondence. The types of services provided include assistance in preparing returns, providing technical information, issuing tax forms and instructions, acceptance of tax returns and payments, and providing public speakers.

D. Statement of Key Policies Pursued

To ensure equity and uniformity in the application of the tax laws so that each taxpayer bears his fair share of taxes, no more and no less. The key policies pursued are: maintenance of an office and field auditing program to audit various types of taxpayers to ensure compliance with the tax laws; maximum dissemination of tax information to ensure an effective self-assessment program; prompt refund of overpaid taxes; and proper staff training to ensure

sufficient competence to realize uniformity of applications and equity to taxpayers.

E. Identification of Important Program Relationships

The Department of Taxation and the Internal Revenue Service exchange tax information under an agreement signed by the state and federal governments in 1965. Since the income tax laws of both agencies are similar, income tax audits made by one agency are generally applicable to the other resulting in broader audit coverage and additional revenues from deficiency assessments.

Under the Multi-State Tax Compact, Hawaii exchanges tax information with other member states and utilizes the services of the multi-state tax auditors in the audit of multi-state corporations.

F. Description of Major External Trends Affecting the Program

The statewide population trends, business activities, economic condition, taxpayer filing patterns, and legislative changes are the major external trends that affect this program.

G. Discussion of Cost, Effectiveness, and Program Size Data

The Audit Division is focusing more on the taxpayers of this State as customers and a valuable resource in this self-assessment, voluntary compliance environment. Proper management and use of this resource is a way to maximize the effectiveness of limited personnel resource.

H. Discussion of Program Revenues

None.

I. Summary of Analysis Performed

None.

J. Further Considerations

In October 2004, the Department implemented the final phase of its Integrated Tax Information Management System. On-going streamlining efforts will continue to bring increased efficiency and effectiveness of available resources.

PROGRAM ID: TAX103
PROGRAM STRUCTURE NO. 11020102
PROGRAM TITLE: TAX COLLECTIONS ENFORCEMENT

OPERATING AND CAPITAL EXPENDITURES

REPORT P61-A

| PROGRAM EXPENDITURES | -----IN DOLLARS----- | | | | -----IN THOUSANDS----- | | | |
|------------------------|----------------------|-----------|-----------|-----------|------------------------|-----------|-----------|-----------|
| | FY2003-04 | FY2004-05 | FY2005-06 | FY2006-07 | FY2007-08 | FY2008-09 | FY2009-10 | FY2010-11 |
| OPERATING COST | 83.50* | 83.50* | 83.50* | 89.50* | 89.5* | 89.5* | 89.5* | 89.5* |
| PERSONAL SERVICES | 2,745,342 | 3,009,751 | 3,185,705 | 3,365,273 | 3,365 | 3,365 | 3,365 | 3,365 |
| OTHER CURRENT EXPENSES | 203,603 | 45,710 | 87,981 | 89,781 | 90 | 90 | 90 | 90 |
| EQUIPMENT | 867 | | 44,000 | 24,000 | 24 | 24 | 24 | 24 |
| TOTAL OPERATING COST | 2,949,812 | 3,055,461 | 3,317,686 | 3,479,054 | 3,479 | 3,479 | 3,479 | 3,479 |
| ===== | | | | | | | | |
| BY MEANS OF FINANCING | | | | | | | | |
| GENERAL FUND | 83.50* | 83.50* | 83.50* | 89.50* | 89.5* | 89.5* | 89.5* | 89.5* |
| | 2,949,812 | 3,055,461 | 3,317,686 | 3,479,054 | 3,479 | 3,479 | 3,479 | 3,479 |
| TOTAL POSITIONS | 83.50* | 83.50* | 83.50* | 89.50* | 89.50* | 89.50* | 89.50* | 89.50* |
| TOTAL PROGRAM COST | 2,949,812 | 3,055,461 | 3,317,686 | 3,479,054 | 3,479 | 3,479 | 3,479 | 3,479 |
| ===== | | | | | | | | |

PERFORMANCE MEASURES AND PROGRAM REVENUES

REPORT P62

PROGRAM ID: TAX-103
 PROGRAM STRUCTURE NO: 11020102
 PROGRAM TITLE: TAX COLLECTIONS ENFORCEMENT

| | FY03-04 | FY04-05 | FY05-06 | FY06-07 | FY07-08 | FY08-09 | FY09-10 | FY10-11 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| MEASURES OF EFFECTIVENESS | | | | | | | | |
| 1 % OF DELINQUENT TAXES COLLECTED | 33 | 35 | 40 | 40 | 45 | 50 | 55 | 55 |
| 2 % DELINQUENT TAXES WRITTEN OFF TO TOT DELINQ TAXES | 3 | 5 | 7 | 7 | 7 | 7 | 7 | 7 |
| 3 % CHG IN CURR TOT OUTSTANDING DELINQUENT TAXES | 3 | 10 | 5 | 5 | 3 | 3 | 2 | 2 |
| 4 % OF DELINQ ACCTS RESOLVED TO TOT # DELINQ ACCTS | 59 | 50 | 50 | 50 | 60 | 60 | 60 | 60 |
| 5 % OF PAYMENT PLANS (SIGNIFICANT) COMPLETED | | 35 | 35 | 40 | 40 | 40 | 40 | 40 |
| PROGRAM TARGET GROUPS | | | | | | | | |
| 1 TOTAL DELINQUENT TAXES OUTSTANDING DURG YR (\$M) | 341 | 350 | 380 | 400 | 415 | 430 | 440 | 450 |
| 2 TOTAL NUMBER OF DELINQUENT TAXPAYERS DURG YEAR | 76477 | 80000 | 75000 | 75000 | 70000 | 70000 | 70000 | 70000 |
| 3 TOTAL NO. DELINQUENT TAXES IN BANKRUPTCY (\$M) | 59 | 60 | 62 | 62 | 64 | 64 | 66 | 66 |
| PROGRAM ACTIVITIES | | | | | | | | |
| 1 AMT OF DELINQUENT TAXES COLLECTED (MILLIONS) | 156 | 155 | 160 | 170 | 180 | 185 | 190 | 190 |
| 2 AMT OF DELINQ TAXES WRITTEN OFF (MILLIONS) | 8 | 10 | 12 | 15 | 15 | 17 | 17 | 20 |
| 3 TOTAL NO. OF DELINQUENT ACCOUNTS RESOLVED | 100726 | 60000 | 60000 | 65000 | 65000 | 65000 | 70000 | 70000 |
| 4 NUMBER OF TAX LIENS FILED | 4537 | 4500 | 5000 | 5000 | 5000 | 5000 | 5500 | 5500 |
| 5 TOTAL NUMBER OF PAYMENT PLANS INSTITUTED | 12437 | 5500 | 6000 | 6000 | 6500 | 6500 | 7000 | 7000 |
| 6 NUMBER OF LEVIES PROCESSED | 3244 | 3000 | 3000 | 3500 | 3500 | 3500 | 4000 | 4000 |

PROGRAM REVENUES BY TYPE (IN THOUSANDS OF DOLLARS):

TAXES
 LICENSES, PERMITS AND FEES
 REVENUES FROM THE USE OF MONEY AND PROPERTY
 REVENUE FROM OTHER AGENCIES: FEDERAL
 ALL OTHER
 CHARGES FOR CURRENT SERVICES
 FINES, FORFEITS AND PENALTIES
 NON-REVENUE RECEIPTS

TOTAL PROGRAM REVENUES

PROGRAM REVENUES BY FUND TO WHICH DEPOSITED (IN THOUSANDS OF DOLLARS):

GENERAL FUND

TOTAL PROGRAM REVENUES

A. Statement of Program Objectives

To reduce the amount of outstanding taxes owing to the State and to maximize voluntary taxpayer compliance with the statutory filing and payment requirements.

B. Description of Request and Compliance with Section 37-68(1)(A)(B)

The Tax Collections Enforcement program is requesting funds for seventeen Delinquent Tax Collection Assistant positions and related costs to enable the Department to collect an additional \$35 million in tax revenues.

C. Description of Activities Performed

1. Collection of delinquent taxes in a timely manner utilizing the appropriate collection tools to secure partial or full payment from delinquent taxpayers.
2. Provide appropriate representation in bankruptcy proceedings to ensure that the State's claims against bankrupt delinquent taxpayers are timely filed, appropriately recorded, and properly resolved in the bankruptcy proceedings.
3. Prepare "personal" assessments for unpaid withholding taxes against responsible corporate officers and employees.
4. In the neighbor island district offices, perform additional functions such as: receiving, sorting, and delivering of mail; cashiering of payments; processing tax clearance applications; and inputting revenue accounting data.

D. Statement of Key Policies Pursued

1. The prompt and timely implementation of effective actions on all delinquent accounts.
2. The development of increased voluntary compliance with statutory registration and filing requirements.
3. The uniform and equitable administration and application of all appropriate State tax laws to each taxpayer.
4. The resolution of all delinquencies in the most appropriate manner that best serves the interest of the State of Hawaii.

E. Identification of Important Program Relationships

The Tax Collections Enforcement program continues to maintain a close dependence upon the Tax Services and Processing program and the Income Assessment and Audit program for prompt and timely referral of delinquent accounts.

The program has also established relationships with the Internal Revenue Service, Federal Bankruptcy Court, Department of Commerce and Consumer Affairs, Department of Accounting and General Services, and various departments from all four counties.

The use of private collection agencies has enabled the Tax Collection Enforcement program to refer delinquent accounts that are no longer within the State's jurisdiction.

F. Description of Major External Trends Affecting the Program

The statewide population trends, business activities, economic condition, taxpayer filing patterns, and legislative changes are the major external trends that affect this program.

G. Discussion of Cost, Effectiveness, and Program Size Data

To ensure equity and uniformity in the application of tax laws so that each taxpayer bears his fair share of taxes, the Department must have sufficient resources for audit and tax collection enforcement programs. Additional resources to improve audit and collection activities will increase revenues, reduce delinquent taxes, and encourage voluntary taxpayer compliance.

H. Discussion of Program Revenues

None.

I. Summary of Analysis Performed

None.

J. Further Considerations

In October 2004, the Department implemented the final phase of its Integrated Tax Information Management System. On-going streamlining efforts will continue to bring increased efficiency and effectiveness of available resources.

OPERATING AND CAPITAL EXPENDITURES

REPORT P61-A

PROGRAM ID: TAX105
 PROGRAM STRUCTURE NO. 11020103
 PROGRAM TITLE: TAX SERVICES & PROCESSING

| PROGRAM EXPENDITURES | IN DOLLARS | | | | IN THOUSANDS | | | |
|------------------------|------------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|
| | FY2003-04 | FY2004-05 | FY2005-06 | FY2006-07 | FY2007-08 | FY2008-09 | FY2009-10 | FY2010-11 |
| OPERATING COST | 88.50* | 88.50* | 110.00* | 110.00* | 110.0* | 110.0* | 110.0* | 110.0* |
| PERSONAL SERVICES | 2,979,853 | 3,232,710 | 3,906,723 | 3,906,723 | 3,907 | 3,907 | 3,907 | 3,907 |
| OTHER CURRENT EXPENSES | 1,869,311 | 1,713,612 | 1,749,041 | 1,749,041 | 1,749 | 1,749 | 1,749 | 1,749 |
| EQUIPMENT | 21,336 | | | | | | | |
| TOTAL OPERATING COST | 4,870,500 | 4,946,322 | 5,655,764 | 5,655,764 | 5,656 | 5,656 | 5,656 | 5,656 |
| BY MEANS OF FINANCING | | | | | | | | |
| GENERAL FUND | 88.50* | 88.50* | 110.00* | 110.00* | 110.0* | 110.0* | 110.0* | 110.0* |
| | 4,870,500 | 4,946,322 | 5,655,764 | 5,655,764 | 5,656 | 5,656 | 5,656 | 5,656 |
| TOTAL POSITIONS | 88.50* | 88.50* | 110.00* | 110.00* | 110.00* | 110.00* | 110.00* | 110.00* |
| TOTAL PROGRAM COST | 4,870,500 | 4,946,322 | 5,655,764 | 5,655,764 | 5,656 | 5,656 | 5,656 | 5,656 |

PERFORMANCE MEASURES AND PROGRAM REVENUES

REPORT P62

PROGRAM ID: TAX-105
PROGRAM STRUCTURE NO: 11020103
PROGRAM TITLE: TAX SERVICES & PROCESSING

| | FY03-04 | FY04-05 | FY05-06 | FY06-07 | FY07-08 | FY08-09 | FY09-10 | FY10-11 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| MEASURES OF EFFECTIVENESS | | | | | | | | |
| 1 AV# BUS DAYS TO PROC REFUND - RESDNT PAPER RETURNS | | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| 2 AV# BUS DAYS PROC REFUND - FIDUC,CORP PAPER RETNS | | | 20 | 20 | 20 | 20 | 20 | 20 |
| 3 AV# BUS DAYS PROC REFUND - NON-RESDNT PAPER RETNS | | | | 15 | 15 | 15 | 15 | 15 |
| 4 AV# BUS DAYS PROC REFUND - ELECTRONIC RETURNS | | 5 | 5 | 4 | 4 | 3 | 3 | 2 |
| 5 AV# BUS DAYS RESPOND PAPER, ELCTRNC CORRESPNDCE | | 15 | 14 | 13 | 12 | 11 | 10 | 9 |
| 6 AV# MIN ON HOLD BEFORE CUSTOMER REP TAKES CALL | | 7 | 6 | 5 | 4 | 3 | 3 | 3 |
| 7 % REDUCTION IN CHECKS PAYMENTS FROM PRIOR YEAR | | 10 | 20 | 30 | 40 | 50 | 55 | 60 |
| 8 % INCR ELECTRONIC FILNG OF INC TAX RET FM PRIOR YR | | 30 | 40 | 50 | 60 | 70 | 75 | 80 |

PROGRAM TARGET GROUPS

| | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| 1 #PERS RESDNT, FIDUC, CORP & NON-RESDNT TAX RETURNS | | 630000 | 636000 | 642000 | 642000 | 642000 | 642000 | 642000 |
| 2 TOTAL NO OF TAXPAYERS FILING RETURNS | 1055507 | 1125000 | 1135000 | 1145000 | 1145000 | 1145000 | 1145000 | 1145000 |
| 3 NO. OF TAXPAYERS DOING BUSINESS ONLINE | | 15000 | 20000 | 25000 | 25000 | 25000 | 25000 | 25000 |
| 4 # CORRESPONDENCE RECEIVED, PAPER & ELECTRONIC | | 74340 | 75050 | 75500 | 75500 | 75500 | 75500 | 75500 |
| 5 # CALLERS REQUESTING PERSONAL ASSISTANCE | | 223000 | 225000 | 227000 | 227000 | 227000 | 227000 | 227000 |

PROGRAM ACTIVITIES

| | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| 1 #PAPER RETURNS PERS RSDNTS, FIDUC, CORP, NON-RSDNT | | 481000 | 476000 | 471000 | 466000 | 466000 | 466000 | 466000 |
| 2 #REFNDS-PAPER RETS PERS RES, FIDUC, CORP, NON-RES | | 360000 | 350000 | 340000 | 340000 | 340000 | 340000 | 340000 |
| 3 NO. OF ELECTRONICALLY FILED RETURNS | 153000 | 160000 | 164000 | 177000 | 177000 | 177000 | 177000 | 177000 |
| 4 NO. OF REFUNDS FROM ELECTRONIC RETURNS | | 130000 | 140000 | 160000 | 160000 | 160000 | 160000 | 160000 |
| 5 NO. OF LETTERS RECEIVED | | 66000 | 68000 | 70000 | 72000 | 74000 | 76000 | 78000 |
| 6 NO. OF ELECTRONIC CORRESPONDENCE RECEIVED | | 15000 | 20000 | 25000 | 30000 | 35000 | 40000 | 45000 |
| 7 NO. PHONE CALLS TRANSFRRD INTO ACD TELEPH SYSTEM | | 220000 | 220000 | 220000 | 220000 | 220000 | 220000 | 220000 |
| 8 NO. OF CHECK & ELECTRONIC PAYMENTS (THOUSANDS) | | 1440 | 1450 | 1460 | 1460 | 1460 | 1460 | 1460 |
| 9 TOTAL NO. OF INDIVIDUAL INCOME TAX RETURNS | | 576000 | 581000 | 586000 | 586000 | 586000 | 586000 | 586000 |

PROGRAM REVENUES BY TYPE (IN THOUSANDS OF DOLLARS):

TAXES
LICENSES, PERMITS AND FEES
REVENUES FROM THE USE OF MONEY AND PROPERTY
REVENUE FROM OTHER AGENCIES: FEDERAL
ALL OTHER
CHARGES FOR CURRENT SERVICES
FINES, FORFEITS AND PENALTIES
NON-REVENUE RECEIPTS

TOTAL PROGRAM REVENUES

A. Statement of Program Objectives

To process all tax documents received in the most efficient and expeditious manner possible; maintain accurate accounting records for all tax programs; and promote voluntary taxpayer compliance through timely delivery of information, forms, and responses to questions and inquiries.

B. Description of Request and Compliance with Section 37-68(1)(A)(B)

The Tax Services and Processing Division is requesting to convert a half-time Clerk to full-time to support the increasing workload of the electronic processing program.

C. Description of Activities Performed

1. Providing Centralized Customer Service, Assistance, and Information on all Taxes Administered by the Department – these functions include responding to general questions relating to income, business, and miscellaneous taxes and procedures; analyzing taxpayer's questions, research, interpretation of law, and development of appropriate correspondences; initiating online changes and corrections to accounting period data and accounts; responding to billing and tax return adjustment inquiries; processing and issuing tax clearances; and receiving and processing requests for tax forms.
2. Issuing Tax Licenses – these functions include assisting taxpayers applying for new or renewed tax licenses, permits, and identification numbers on a statewide basis as they relate to the general excise, withholding, transient accommodations, rental motor vehicle and tour vehicle surcharge, tobacco, liquor, or fuel taxes; processing miscellaneous tax registration and renewals on a statewide basis; and approving and monitoring applications to purchase cigarette tax stamps.
3. Assisting Taxpayers in Preparation of Returns – this function includes preparing simple tax returns for and assisting taxpayers in filing their general excise, use, withholding, transient accommodations, rental motor vehicle and tour vehicle surcharge, and net income tax returns.
4. Account Management – this function includes providing computer-based correction activities to the demographic and financial information on a taxpayer's account in order to process, post, or update net income, general excise, use, withholding, transient

accommodation, rental motor vehicle and tour vehicle surcharge tax returns; and preparing letters to taxpayers as it relates to correction adjustments.

5. Receiving and Preparing Documents for Cashiering – these functions include opening, sorting, and distributing incoming mail; preparing and delivering outgoing mail; batching documents by tax type; and editing the documents.
6. Processing Documents – these functions include the cashiering and depositing of all monies received; processing of returns and payments received from paper and electronic channels; entering of data into a machine print media; and maintenance and control of documents in the central filing system.
7. Revenue Accounting – these functions include the control and accounting for all tax revenues collected, adjusted, and refunded; maintenance of revenue control and subsidiary ledgers; maintenance of the accounting system for protested payments and tax appeals; and statewide processing and accounting activities of all miscellaneous taxes (except estate and transfer tax).
8. Preparing Statements and Reports of Tax Operations – this function includes gathering, compiling, analyzing, and preparing tax operation statements and reports.
9. Providing Support Services – these functions include duplicating services of tax documents and providing internal mail service and messenger service to other State agencies for the Department

D. Statement of Key Policies Pursued

The key policies pursued by this Division are: rapid deposit of monies, efficient processing of tax returns, accurate and uniform accounting practices statewide, expedient processing of business license application and error-corrections of tax returns and other filings on-line, prompt and courteous service to the public, and fair and equitable treatment of all taxpayers.

E. Identification of Important Program Relationships

The Division has important relationships with the legislature, financial institutions, government (federal, state, county) agencies, branches within the Department, tax practitioners and preparers, and taxpayers.

F. Description of Major External Trends Affecting the Program

The statewide population trends, business activities, economic condition, taxpayer filing patterns, Internal Revenue Service, and legislative changes are major external trends that affect this program.

G. Discussion of Cost, Effectiveness and Program Size Data

In carrying out its functions, the program relies heavily on the expertise of its staff, broadly applied cutting-edge technology, and effective partnerships.

H. Discussion of Program Revenues

None.

I. Summary of Analysis Performed

None.

J. Further Considerations

In October 2004, the Department implemented the final phase of its Integrated Tax Information Management System. On-going streamlining efforts will continue to bring increased efficiency and effectiveness of available resources.

OPERATING AND CAPITAL EXPENDITURES

REPORT P61-A

PROGRAM ID: TAX107
 PROGRAM STRUCTURE NO. 11020104
 PROGRAM TITLE: SUPPORTING SERVICES - REVENUE COLLECTION

| PROGRAM EXPENDITURES | IN DOLLARS | | | | IN THOUSANDS | | | |
|------------------------|------------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|
| | FY2003-04 | FY2004-05 | FY2005-06 | FY2006-07 | FY2007-08 | FY2008-09 | FY2009-10 | FY2010-11 |
| OPERATING COST | 57.00* | 57.00* | 67.00* | 67.00* | 67.0* | 67.0* | 67.0* | 67.0* |
| PERSONAL SERVICES | 3,375,482 | 3,827,075 | 4,215,087 | 4,215,087 | 4,215 | 4,215 | 4,215 | 4,215 |
| OTHER CURRENT EXPENSES | 10,960,881 | 3,611,250 | 3,936,720 | 3,352,720 | 3,353 | 3,353 | 3,353 | 3,353 |
| EQUIPMENT | 137,278 | | | | | | | |
| TOTAL OPERATING COST | 14,473,641 | 7,438,325 | 8,151,807 | 7,567,807 | 7,568 | 7,568 | 7,568 | 7,568 |
| BY MEANS OF FINANCING | | | | | | | | |
| GENERAL FUND | 57.00* | 57.00* | 67.00* | 67.00* | 67.0* | 67.0* | 67.0* | 67.0* |
| SPECIAL FUND | 5,894,099 | 5,944,073 | 7,899,807 | 7,315,807 | 7,316 | 7,316 | 7,316 | 7,316 |
| | 8,579,542 | 1,494,252 | 252,000 | 252,000 | 252 | 252 | 252 | 252 |
| TOTAL POSITIONS | 57.00* | 57.00* | 67.00* | 67.00* | 67.00* | 67.00* | 67.00* | 67.00* |
| TOTAL PROGRAM COST | 14,473,641 | 7,438,325 | 8,151,807 | 7,567,807 | 7,568 | 7,568 | 7,568 | 7,568 |

PERFORMANCE MEASURES AND PROGRAM REVENUES

REPORT P62

PROGRAM ID: TAX-107
 PROGRAM STRUCTURE NO: 11020104
 PROGRAM TITLE: SUPPORTING SERVICES - REVENUE COLLECTION

| | FY03-04 | FY04-05 | FY05-06 | FY06-07 | FY07-08 | FY08-09 | FY09-10 | FY10-11 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| MEASURES OF EFFECTIVENESS | | | | | | | | |
| 1 AMT OF LATE INTEREST PAYMENTS MADE TO VENDOR | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 %GOODS/SVS RECVD BY INTERNAL CUST W/IN 20 WRK DAYS | 90 | 90 | 90 | 90 | 90 | 90 | 90 | 90 |
| 3 %VACANT PERM POSITIONS FILLED W/IN 60 DAYS OF VAC | 60 | 65 | 50 | 65 | 65 | 65 | 65 | 65 |
| 4 MAX ERROR (%) IN FORECASTING GEN FUND REVENUES | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| 5 %TOT TAX BILLS INTRO/INCRP IN BILLS PASSED BY LEG | 55 | 70 | 70 | 70 | 70 | 70 | 70 | 70 |
| 6 % OF NETWORK TROUBLE CALLS RESLVED W/IN 48 HRS | 77 | 90 | 90 | 90 | 90 | 90 | 90 | 90 |
| 7 % OF SYSTEMS ABENDS RESOLVED WITHIN 48 HOURS | 81 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |
| 8 % OF NETWORK/SYS ENHANCEMT REQUESTS COMPLETED | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 |
| 9 AV # WK DAYS TO RESPOND TO WRITTN LETTER RULG REQS | | 135 | 135 | 135 | 135 | 135 | 135 | 135 |
| 10 AV # WK DAYS TO APPROVE GE, CONVVY TAX EXEMPTIONS | | 40 | 40 | 40 | 40 | 40 | 40 | 40 |

PROGRAM TARGET GROUPS

| | | | | | | | | |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1 # EMPLOYEES (PERM/TEMP) IN DOTAX | 377 | 400 | 426 | 432 | 432 | 432 | 432 | 432 |
| 2 NUMBER OF TAXPAYERS DOING BUSINESS | 460000 | 465000 | 470000 | 475000 | 475000 | 475000 | 475000 | 475000 |
| 3 NUMBER OF TAXPAYERS FILING RETURNS | 1055507 | 1125000 | 1135000 | 1145000 | 1145000 | 1145000 | 1145000 | 1145000 |

PROGRAM ACTIVITIES

| | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| 1 # REQUISITIONS FOR GOODS & SERVICES | 1400 | 1450 | 1450 | 1450 | 1450 | 1450 | 1450 | 1450 |
| 2 # REQUESTS TO FILL VACANT POSITIONS | 71 | 60 | 86 | 66 | 60 | 60 | 60 | 60 |
| 3 # OF END-USER DEVICES | 1042 | 1100 | 1100 | 1100 | 1100 | 1100 | 1100 | 1100 |
| 4 # OF MODULES MAINTAINED | 13704 | 15000 | 15500 | 16000 | 16500 | 17000 | 17500 | 18000 |
| 5 NO. OF CORRESPONDENCE REQ INFO RECVD | | 10000 | 10000 | 10000 | 10000 | 10000 | 10000 | 10000 |
| 6 # REQUESTS/INQUIRIES FROM GOV, EXEC AGENCIES & LEG | | 150 | 150 | 150 | 150 | 150 | 150 | 150 |

PROGRAM REVENUES BY TYPE (IN THOUSANDS OF DOLLARS):

| | | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| TAXES | 3,298,243 | 3,539,804 | 3,725,994 | 3,972,906 | 4,186,399 | 4,416,575 | 4,653,623 | 4,653,623 |
| LICENSES, PERMITS AND FEES | 641 | 670 | 670 | 670 | 670 | 670 | 670 | 670 |
| REVENUES FROM THE USE OF MONEY AND PROPERTY | | | | | | | | |
| REVENUE FROM OTHER AGENCIES: FEDERAL | 75 | 73 | 73 | 73 | 73 | 73 | 73 | 73 |
| ALL OTHER | | | | | | | | |
| CHARGES FOR CURRENT SERVICES | 33 | 62 | 62 | 62 | 62 | 62 | 62 | 62 |
| FINES, FORFEITS AND PENALTIES | | | | | | | | |
| NON-REVENUE RECEIPTS | | | | | | | | |
| TOTAL PROGRAM REVENUES | 3,298,992 | 3,540,609 | 3,726,799 | 3,973,711 | 4,187,204 | 4,417,380 | 4,654,428 | 4,654,428 |

PROGRAM REVENUES BY FUND TO WHICH DEPOSITED (IN THOUSANDS OF DOLLARS):

| | | | | | | | | |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| SPECIAL FUNDS | 8,618 | 1,470 | 120 | 120 | 120 | 120 | 120 | 120 |
| GENERAL FUND | 3,290,373 | 3,539,139 | 3,726,679 | 3,973,591 | 4,187,084 | 4,417,260 | 4,654,308 | 4,654,308 |
| TOTAL PROGRAM REVENUES | 3,298,991 | 3,540,609 | 3,726,799 | 3,973,711 | 4,187,204 | 4,417,380 | 4,654,428 | 4,654,428 |

A. Statement of Program Objectives

To enhance the Department's effectiveness and efficiency in implementing tax programs for formulating policies, allocating resources and providing direction to operations; and to improve the State's policy and decision-making process by providing timely and accurate tax data and interpretive information.

B. Description of Request and Compliance with Section 37-68(1)(A)(B)

The Supporting Services program is requesting three information technology/system administration positions to enable the Department to collect an additional \$35 million in tax revenues. The program is also requesting funds for production support services for the Integrated Tax Information Management System; funds for a Tax Review Commission evaluation of the State tax structure; and, an increase in the Cigarette Tax Stamp Administrative Special Fund appropriation ceiling.

C. Description of Activities Performed

Director's Office – Provides administrative direction in implementing the Department's tax programs so as to achieve efficiency and effectiveness. Coordinates Department activities with other government agencies and private enterprises in areas of mutual interest and responsibility.

Administrative Services Office – Provides administrative and personnel management support and services to the Department's operating units. Facilitates resource allocation decisions through timely filling of vacancies and proper budgeting of expenditures. Prepares biennium and supplemental budgets based on the goals and objectives set by the Director of Taxation.

Information Technology Services Office – Provides technical support and formulates associated policies and procedures for the Department regarding effective information technology solutions. Provides maintenance support for current computer systems and assistance in planning for the Department's information technology requirements.

Rules Office – Develops tax interpretations, including rules and regulations, technical memoranda, tax information releases, tax precedents, and basic principles for uniform application of the State tax laws for statewide use. Prepares appropriate tax legislative proposals and written testimonies on all tax measures before the legislature. Develops and coordinates training programs in matters relating to the income and miscellaneous tax laws.

Tax Research and Planning Office – (1) Tax Planning. Develops pertinent and timely tax data to assist in the on-going review of the State tax structure. Reviews the revenue and economic impact of all proposed revisions to the tax system. Reviews and incorporates in the pertinent tax plans, all legislative proposals and enactments to meet administrative goals and financial requirements. (2) Revenue Projections. Evaluates and revises the tax revenue forecasts for the state and county general and special funds. Develops and updates various forecasting models and databases for tax revenues and personal income. (3) Council on Revenues. Provides general fund estimates for a seven-year period and projects the total state personal income for the calendar year in progress. Reviews general fund estimates quarterly and total state personal income semiannually.

D. Statement of Key Policies Pursued

To maximize the State's income within the limits of established revenue policies and tax laws by administering an equitable system of tax assessment and efficient revenue collection.

E. Identification of Important Program Relationships

The Department continues to maintain an important relationship with the legislature, Internal Revenue Service, and tax practitioners.

F. Description of Major External Trends Affecting the Program

The statewide population trends, business activities, economic condition, taxpayer filing patterns, and legislative changes are the major external trends that affect this Department.

G. Discussion of Cost, Effectiveness and Program Size Data

The Department implemented the final phase of its Integrated Tax Information Management System. On-going production support and workforce development will improve services to taxpayers, maximize revenue collections, and increase the effectiveness and efficiency of program operations.

H. Discussion of Program Revenues

None.

I. Summary of Analysis Performed

None.

J. Further Considerations

None.

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